



Forex Market **Insights** Newsletter

Volume 76 → Jul 30th to Aug 05th 2023

Key Takeaway Summaries

₹ INR

This week was kind of a roller-coaster journey for the US\$INR pair

€ EUR

Both the Federal Reserve (Fed) and the European Central Bank (ECB) made a move to raise interest rates by 25 basis points

£ GBP

This week the major movement in sterling was due to the movement in the dollar index and the lack of major economic events in the U.K. except for the PMI data

¥ JPY

The central bank decided to maintain its ultra-low overnight interest rate at -0.1% while emphasizing the importance of continuing monetary support

Welcome

Dear Shareholders,

Stocks closed the week higher, with the Dow Jones Industrial Average recording its 13th straight daily gain on Wednesday, the longest winning streak since 1987. Friday saw a sharp rise in stocks as the core PCE price index increased 0.2% in June (down from 0.3% in May), showing a year-over-year increase of 4.1%, slightly below expectations and the slowest growth since September 2021.

Last Friday, the Indian rupee experienced its largest single-day decline in two months, breaking a two-week winning streak. This drop was influenced by significant gains in the U.S. dollar. Despite this, the rupee only fell by 0.3% for the week, as there were considerable inflows that limited the decline.

Following a busy week of economic news, the STOXX Europe 600, FTSE MIB, CAC 40, DAX, and FTSE 100 all rose in response to the ECB's expected move, raising interest rates to 3.75%, citing concerns over prolonged high Eurozone inflation, which stood at 5.5% in June (down from 6.1% in May) but still surpassing the 2% target. The yield on Germany's 10-year national bond surged above 2.56% before settling around 2.49% for the week.

Over the week, Japan's stock markets climbed, with the Nikkei 225 Index rising 1.4% and the broader TOPIX Index rising 1.3%. Investors were taken aback when the Bank of Japan announced that it would increase flexibility around its yield curve control (YCC) aim. After the July 28-29 monetary policy meeting, the Bank of Japan decided to retain its benchmark short-term interest rate at -0.1% and keep 10-year JGB yields close to zero percent.

Thank You

Vijay Kumar Gauba
Additional Director General
Trade Promotion Council of India

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Events to WATCH

Aug 01, 10:30
Nikkei S&P
Global
Manufacturing
PMI (Jul)

Aug 03, 10:30
Nikkei Services
PMI (Jul)

Throughout the previous week US\$/INR pair was almost stable around 82-level but this week since the beginning itself the Rupee started gaining. This week was kind of a roller-coaster journey for the US\$/INR pair. It began the week unchanged at 82.01, hit a 12-week low of 81.67 on Tuesday, as well as a 2-week high level of 82.34 on Friday, and ended the week at 82.25. On Wednesday (26th July 23), the US Fed increased their interest rate as expected by 25bps to a benchmark level of 5.25-5.50%, a 22-year high. In the press conference Fed Chair Powell said they are not expecting a recession in 2023 and has signaled that future interest rate decisions will totally be data dependent as there is a long interval of 8-weeks before the next Fed meeting. By that time, policymakers will have 2 more consumer price reports as well as 2 labor market reports also.



As per the data released on Friday, India's FX Reserves fell by 2 billion dollars to 607.04 billion dollars. On Thursday, we had 4 very important economic data from the US which were GDP (QoQ) (Q2), Core Durable Goods Orders (MoM) (Jun), Initial Jobless Claims & Pending Home Sales (MoM) (Jun), all of these came higher than expected by a decent amount due to which the dollar index went up from 100.64 to 102.04 which is more than 1% gain. Key events for the upcoming week are JOLTs Job Openings (Jun), ADP Nonfarm Employment Change (Jul), Services PMI (Jul), ISM Manufacturing PMI (Jul) & Nonfarm Payrolls (Jul).

\$ USD

REPO RATE

5.5%

GDP

2.4%

INFLATION

3%

UNEMPLOYMENT

3.6%

TRADE BALANCE

-\$68.98B

Events to WATCH

Aug 01, 19:30

JOLTs Job Openings (Jun)

Aug 01, 19:30

ISM Manufacturing PMI (Jul)

Aug 02, 17:45

ADP Nonfarm Employment Change (Jul)

Aug 03, 19:30

ISM Non-Manufacturing PMI (Jul)

Aug 04, 18:00

Unemployment Rate (Jul)

Aug 04, 18:00

Nonfarm Payrolls (Jul)

Aug 04, 18:00

Average Hourly Earnings (MoM) (Jul)



Last Friday, The Indian rupee experienced its largest single-day decline in two months, breaking a two-week winning streak. This drop was influenced by significant gains in the U.S. dollar. Despite this, the rupee only fell by 0.3% for the week, as there were considerable inflows that limited the decline.

The US\$/INR currency pair showed the importance of price gaps. On Friday, a partial filled gap was filled created from July 12th to July 13th, ranging between 82.14 and 82.2350. However, a sharp fall in the rupee created a new gap on the same day, ranging from 82.03 to 82.19. Now there are two unfilled gaps remaining: one on the upside, ranging from 82.45 to 82.55, created on July 10th and 11th, and another one on the downside created on the last day of the week.

The pair found support around the 81.60-81.70 region, indicating that this support level might hold for a longer period. On the upside, the 82.80-82.90 range acted as a crucial resistance, implying that breaking these levels would require significant market developments.

Importers were previously advised to hedge near 81.90 or lower, and exporters were advised to hedge around 82.30. Both targets were achieved during the week. Importers can consider hedging near 81.90 again or lower, while exporters can now target the unfilled gap of 82.45-82.55. They can use a combination of vanilla options and forward contracts for their hedging strategies. On the daily time frame momentum indicator MACD giving bullish signal while RSI moving into an overbought zone.

Events to WATCH

Jul 31, 14:30
CPI (YoY) (Jul)

Jul 31, 14:30
Core CPI (YoY)

Aug 01, 13:25
German
Unemployment
Change (Jul)

Aug 01, 14:00
German
Manufacturing
PMI (Jul)

Aug 03, 13:30
Services PMI
(Jul)

Aug 03, 13:30
S&P Global
Composite PMI
(Jul)

For the second consecutive week, the EUR/US\$ experienced a decline, primarily influenced by a robust performance of the US Dollar against other currencies. Surprisingly, the most significant factor impacting the market was not the Federal Reserve (Fed) meeting or the European Central Bank (ECB) decision. Instead, it was a series of impressive US economic data that exceeded expectations. These data points demonstrated the resilience of the US economy, even in the face of the Fed's monetary tightening measures. Both the Federal Reserve (Fed) and the European Central Bank (ECB) made a move to raise interest rates by 25 basis points. The action by Fed was in line with expectations and did not bring any surprises. While this rate hike seemed to indicate the possibility of it being the final one, further economic data still leaves the door open for further tightening measures. On the other hand, the ECB's decision had a bit more of an unexpected element. The decision is more reflective of the economic outlook rather than being solely driven by progress in combating inflation. More key events to look forward in the upcoming week include CPI (YoY) (Jul), Services PMI (Jul), and S&P Global Composite PMI (Jul).



The EUR/US\$ opened at the 1.1133 level. The pair fell continuously this week and traded in a range of 1.0943-1.1149As per the daily chart frame of the pair, it can be seen that the pair broke below the 1.1000 levels, the major resistance (pink line) level. The pair experienced maximum volatility in the fourth trading session of the week, due to the upbeat GDP release of the U.S. economy, and breached the resistance once again as it made a weekly high level of 1.1149 and then fell to 1.0943. If the pair manages to move above the resistance, the upside could be to the 1.1252 level, the second resistance (white line). As per the RSI Indicator, the signal (yellow) line is above the RSI 14 (purple) line, suggesting the downtrend of the pair. The MACD indicator also confirms the action of RSI as we can see the MACD (blue) line marching downwards after the bearish crossover on the first trading session of the week. On the downside, the 1.0825 level, acts as a major support level (brown line).

Events to WATCH

Aug 01, 14:00
Manufacturing PMI (Jul)

Aug 03, 14:00
Composite PMI (Jul)

Aug 03, 14:00
Services PMI (Jul)

Aug 03, 16:30
BoE Interest Rate Decision (Aug)

Aug 04, 14:00
Construction PMI (Jul)

Sterling started the week by opening at 1.2848 levels. The pair fell on Monday, following the release of disappointing Manufacturing, Composite, and Services PMI, which came lower than expected. However, the pound started recovering its losses during midweek, as the dollar index weakened during the Fed's two-day monetary policy meeting. A neutral statement from Fed's Chair, Powell further led to the downfall in the dollar index, as it made a weekly low of 100.55. But the dollar recovered after the upbeat GDP data release, which grew by 2.4% against the market consensus of 1.8%. The world's largest economy showed signs of resiliency, as impressive US growth and jobs reports have revived aggressive Fed predictions. As a result, the Pound fell to 1.2762, a two-week low level, as the dollar index gained to 102.04 level. This week the major movement in sterling was due to the movement in the dollar index and the lack of major economic events in the U.K. except for the PMI data. GBP/US\$ recovered a little towards the end, on the last trading session of the week, favored by the yearly Core PCE Price Index which came lower at 4.1%. The pair ended the week at 1.2486.



Last week, the GBP/US\$ pair saw both side price action due to significant economic events in the United States. Despite this, the pair closed the week almost unchanged. The level 1.30 had been acting as a crucial resistance, but the pair has managed to break above it. From current levels of 1.2850 bulls would target 1.30 afterwards the recent high of 1.3145-1.3150 reached in the mid of July while on the downside, if bears take over, they can push towards 1.2695-1.2700 where 50 days moving average is located afterwards 1.2650 may come into play which played a crucial role of support in the past, and breaking below them could lead to a decline towards 1.2400. On the daily timeframe, the momentum indicators RSI and MACD are offering mixed signals.

¥ JPY

REPO RATE

-0.10%

GDP

0.7%

INFLATION

3.3%

UNEMPLOYMENT

2.6%

TRADE BALANCE

-¥-43B

Events to WATCH

Jul 31, 05:20
Retail Sales (YoY)
(Jun)

Jul 31, 05:20
Industrial
Production
(MoM) (Jun)

Aug 01, 05:00
Jobs/application
s ratio (Jun)

Aug 03, 06:00
Services PMI
(Jul)



The US\$/JPY pair experienced a sharp decline of approximately 300 pips from its peak during the Asian session, nearing the 141.00 level. This drop was triggered by the Bank of Japan's (BoJ) hawkish stance. The central bank decided to maintain its ultra-low overnight interest rate at -0.1% while emphasizing the importance of continuing monetary support. The BoJ acknowledged that additional time was necessary to achieve the 2% inflation target in a sustainable manner. However, in response to growing concerns about the adverse consequences of prolonged monetary easing, the BoJ also introduced measures to provide greater flexibility to its Yield Curve Control (YCC) policy. As a result of these developments, the US\$/JPY pair plunged to a nearly two-week low, reflecting the market's reaction to the BoJ's mixed message regarding its monetary policy stance. The central bank shifts from rigid limits to "references" for the 10-year Japanese government bond yield cap, with intervention planned at 1.0%. Some important events to look forward to in the upcoming week include Retail Sales (YoY) (Jun), Industrial Production (MoM) (Jun), and Services PMI (Jul).

US\$/JPY opened at 141.55 level, this week. The pair was in a continuous downtrend this week, however, it recovered a little in the last trading session of the week. During the week, it traded in a range of 138.05-141.81. As per the daily chart frame of US\$/JPY, the support level can be seen at 138.57 (pink line), which was broken on Friday, however, the pair quickly retraced back and ended the week at 141.14 level. The next support can be seen at the 137.29 level (Brown line). As per the MACD indicator, it can be seen the MACD (blue) line is seen moving upwards and is very close to the 0 level as well. A bullish crossover might happen, indicating the bullishness of the pair. Any move above the 0 level, will result in the upward trend of the pair. RSI 14 (purple) Line is above the signal (yellow) line, confirming the action of MACD. However, a move to the 142.31 level can be predicted on the upside, as we can see major resistance (orange line) at the same level.





Is Pegged Foreign Exchange Rate Better?

The **foreign currency exchange rates** can determine the relative strength of one country's currency to another since the disparity is manifested in the value gap observed upon **currency exchange**. The factors that hold influencing power over the economic condition of a country include the inflation rate, government stability, geopolitical conditions, prevailing interest rates and many more.

The currency peg basically empowers the country's business planning by offering long term predictability of exchange rates. When the value of a country's currency is tied to a usually stronger currency like the Euro, UK pound sterling or US dollar, it is referred to as a **pegged exchange rate** or **fixed exchange rate**. The main objective of pegging the rate at a predetermined ratio of another currency by the monetary authority is to stabilize the exchange rate by pegging it to a more stable and internationally prevalent currency. The government sets the fixed or pegged rate against a major world currency wherein the central bank buys and sells its own currency in the foreign exchange market to maintain the exchange rate. The participating countries agree upon an initial target rate when pegged rate agreements are set up, which necessitates several reviews over their lifetimes to adapt the target rate to the changing economic climate.

Merits of a pegged exchange rate

Trade relationships with countries One of the major advantages that pegged exchange rates bring to smaller economies is that by controlling its domestic currencies, the exchange rates can be kept low, which aid the competitiveness of goods in the international market. Another merit is the profitability that trade relations between countries with low production costs harbour with countries with comparatively stronger currencies. When manufacturers from China and Vietnam translate their earnings to their home currencies, a greater amount of profit is earned, ultimately facilitating domestic products' competitiveness abroad and profitability at home.

Currency protection Beyond the trade outlook, pegged exchange rates also corroborate a rise in the standard of living along with overall economic growth. Fortifying the domestic currency's value against the adverse foreign exchange swings adds a layer of protection wherein the possibility of encountering a currency crisis can be reduced by the government.

Demerits of a pegged exchange rate

The need to maintain the fixed exchange rate and the measures that the government needs to take to ensure that, encompass the disadvantages associated with the pegged exchange rate.

As the central bank is constantly buying and selling domestic currency, large foreign reserves need to be maintained wherein the massive amount of capital created can create economic side effects like inflation. Due to the directly proportional relation between currency reserve and monetary supply, the prices continue to rise, causing troubles for countries that are inclined to keeping things stable

While pegged exchange rate might empower countries to defend against the adverse global situation, they often fall short in navigating domestic situations. The Thai baht suffered tremendously following adverse market events during 1996-1997, the time it was pegged to the US dollar. Due to the government's unwillingness and inability to defend the baht due to limited reserves, the currency depreciated, and the value of the baht plunged. Thus, ultimately in July 1997, the Thai government was forced into the floating exchange regime with the baht value dropping as much as 40%.



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